

Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 PA-01 PRS-01 L-03 H-02 AS-01 /098 W

----- 080283

R 270921Z JUN 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 1214

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY SEOUL

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS

REF: TOKYO A-259

SUMMARY: DURING JUNE DOL GRADUALLY STRENGTHENED ON TOKYO

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FOREX MARKET, AND PACE OF DOL APPRECIATION HAS QUICKENED

DURING PAST WEEK. APPRECIATION LARGELY IN RESPONSE TO LESS OPTIMISTIC EXPORT OUTLOOK FOR JAPAN. FOREX MARKET TRADING HAS BEEN CALM, HOWEVER, WITH DAILY VOLUME OF SPOT TRANSACTIONS USUALLY WELL BELOW \$100 MIL. END SUMMARY.

1. REFLECTING A DARKENED OUTLOOK FOR JAPAN'S EXPORTS, AS WELL AS THE STRENGTHENING OF THE DOL VIS-A-VIS EUROPEAN CURRENCIES, THE DOL HAS STRENGTHENED THROUGHOUT JUNE ON TOKYO FOREX MARKET. IN EARLY PART OF MONTH DOL APPRECIATION WAS GRADUAL WITH INCREASE IN VALUE ONLY 0.9 PERCENT BETWEEN JUNE 2 AND JUNE 20. IN PAST WEEK, HOWEVER, PACE OF APPRECIATION HAS PICKED UP, WITH VALUE OF DOL RISING A FURTHER 1.0 PERCENT TO 298 YEN/DOL ON JUNE 26 BEFORE EASING FOLLOWING DAY.

2. THE APPRECIATION IS LARGELY DUE TO THE DECLINING VOLUME OF JAPANESE EXPORTS, PARTICULARLY SHIPMENTS TO SOUTHEAST ASIA AND STEEL EXPORTS TO THE U.S. ADDITIONAL INFLUENCES HAVE BEEN THE DISAPPEARANCE OF THE INFLOW OF EUROS USED TO PURCHASE SHORT-TERM GOJ TREASURY BILLS (REFAIR) AND THE GENERAL STRENGTHENING OF THE DOL VIS-A-VIS EUROPEAN CURRENCIES. THE INFLOW OF DOLS FROM BONDS MARKETING ABROAD AND THE INFLOW ON IMPACT LOANS HAVE CONTINUED AT THE SAME RATE AS IN MAY.

3. THE ACCELERATION OF THE DOL'S APPRECIATION DOES NOT APPEAR TO REFLECT ANTICIPATION BY EXCHANGE TRADERS HERE OF CONTINUED MOVEMENT IN THE YEN/DOL RATE. IN FACT, DURING THIS WEEK THREE-MONTH AND SIX-MONTH FORWARD DOLS HAVE MOVED TO DISCOUNT AS SPOT DOL RATE APPROACHED 298 YEN/DOL. BOTH TRADING CORPORATIONS AND BOJ OFFICIALS SEE THE EXPORT SLOWDOWN AS RELATIVELY SHORT-TERM; THE OUTLOOK IS EXPECTED TO IMPROVE AS THE U.S. ECONOMY RELIVES LATER THIS YEAR. MOREOVER, THE DAILY VALUE OF SPOT TRANSACTIONS HAS REMAINED MODERATE EXCEPT FOR JUNE 25 AND JUNE 26. ALTHOUGH BOJ INTERVENED ON THOSE DAYS, A BOJ OFFICIAL SAID THE AMOUNT OF INTERVENTION WAS MODEST. THE BOJ SOURCE ALSO NOTED THAT THERE IS NO MOOD AMONG JAPANESE TRADING COMPANIES OF "WANTING TO STAY AT 300" IMPLYING THAT A REVERSAL OF THE RECENT LIMITED OFFICIAL USE

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TREND AND A MOVEMENT BACK TO 290 YEN/DOL WOULD PRESENT NO PROBLEMS FOR JAPANESE EXPORTERS.

4. FOLLOWING ARE DATA FOR SPOT (CENTRAL) AND FORWARD DOLLAR RATES WITH SPOT, FORWARD, AND SWAP VOLUMES FOR JUNE 2-27 (I.E. SINCE LAST REPORTED TOKYO 7134).

CENTRAL	FORWARD DOLLARS	SPOT
SPOT RATE	(PREMIA IN PCT. P.A.)	VOL

	(YEN/DOL)	3-MO	6-MO	MIL DOL
JUNE 2	291.45	0.41	0.07	67
3	291.45	0.69	0.45	79
4	291.20	0.96	0.65	78
5	291.70	0.88	0.62	74
6	292.10	0.75	0.41	75

WEEKLY FWD VOL WAS \$457 MIL; SWAP VOL WAS \$419 MIL

JUNE 9	291.85	0.88	0.55	71
10	292.05	0.82	0.72	93
11	291.95	1.30	0.75	96
12	292.10	1.44	0.75	111
13	292.65	0.89	0.72	92

WEEKLY FWD VOL WAS \$520 MIL; SWAP VOL WAS \$346 MILL

JUNE 16	293.25	0.74	0.65	68
17	294.00	0.41	0.34	77
18	294.00	0.20	0.41	75
19	294.20	0.14	0.31	83
20	294.10	0	0.31	64

WEEKLY FWD VOL WAS \$484 MIL; SWAP VOL WAS \$483 MIL

JUNE 23	294.75	0.54	0.37	69
24	295.20	0.41	0.41	77
25	296.30	MIN 0.34	0.71	152
26	298.00	MIN 1.34	MIN 1.14	135
27	296.50	MIN 0.20	MIN 0.13	118

WEEKLY FWD VOL WAS \$617 MIL; SWAP VOL WAS \$369 MIL
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Message Attributes

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Margaret P. Grafeld
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06 JUL 2006

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